

## On gullibility

### Watch for the red flags that Rewald investors missed

By Kit Smith  
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"The old cliché of there is no free lunch is more than apropos in our business," says Theodore Jung, Hawaii manager for the investment firm of Prudential-Bache Securities.

Jung is speaking of the 20 percent "guaranteed" return offered by the now-bankrupt firm of Bishop, Baldwin, Rewald, Dillingham & Wong or "tax-deferred savings accounts."

Says Clair Harding, president of Bishop Trust Co.: "When someone talks about a return that high, it's a red flag . . . I would sure ask a lot of questions."

In fact, the firm headed by Ronald Rewald claimed in press material that it had maintained "for the last 30 years a profit level to clients of approximately 26 percent." (State records show that Bishop Baldwin, in fact, is 5 years old, incorporated in 1978.)

Being wary of promised high returns is one of several caveats offered by various investment executives contacted by The Advertiser last week.

"Achieving a 26 percent return regularly is impossible for us," said Harding. The only way anyone can hope to achieve it, he said, is to accept "a tremendous risk factor."

Jung of Prudential-Bache notes that the financial markets "are very, very efficient." Various instruments, whether they be certificates of deposit, Treasury bills or second mortgages, tend to provide percentage yields very close to other instruments of comparable quality.

If a firm talks of a rate way out of line, "there probably is something it's not telling, or it's crooked," he said.

If an investment "sounds too good to be true, it probably is," said Gordon Van Wagner of Shearson, American Express.

"Of the more than 200 types of investments my firm offers, I know of only one that has the word 'guaranteed' associated with it — a single-premium, deferred annuity."

Plainly, the Bishop Baldwin affair has made waves in the local financial community.

"It has done us some short-term harm," said Gary Jung of E.A. Buck Planning Services Inc., who also is president of the Hawaii chapter, International Association for Financial Planning.

"People on the fence (about) whether to get involved with a financial services company are more leery."

But in the long term, he said, it may do some good, "in giving people greater guidelines."

Another financial planner, Jay Ogden of Bruce Wilson & Co., gave a similar report.

"New clients are asking more questions, and while I think that's good, I'm embarrassed at having to answer because of someone in our industry who went afoul."

Even 85-year-old Hawaiian Trust Co., the state's largest trust company, felt the need to comment in a letter to clients on "the current furor in the media" about the Bishop Baldwin bankruptcy. Writes President

William Aull: "While we pursue attractive returns and while we know how to be cautiously audacious where appropriate, we emphasize the safety of our client's assets."

Besides the 20 percent promised return, another clear red flag was raised by the way Bishop Baldwin took in clients' money, the investment executives said.

"The most incredible thing was how people were willing to write checks in large sums directly to the firm, without a prospectus," said financial planner F. William McRoberts.

If you are dealing with a stock exchange member firm, it is usual practice to make checks payable to that firm when it handles an investment for you. But not so with a financial planning firm, one of the labels Bishop Baldwin attached to itself.

In the latter case, industry people say your check should be made payable to the mutual fund, limited partnership or other entity in which your funds are to be invested.

Robert Chamberlain of Chamberlain & Associates, a financial planning firm, said: "We never take clients' funds on deposit. When a client mistakenly makes out a check to us, we endorse it over to the investment."

Another point: If that investment is a security, you should get a prospectus to look at — including a listing of the risk factors, as the Securities & Exchange Commission requires.

A financial planner's role is to examine a client's overall financial picture and draft a coordinated program of investments and insurance, with taxes as an overriding consideration.

This contrasts with the function of the investment manager — another category to which Bishop Baldwin laid claim.

An investment manager calls the shots for part or all of a client's investment portfolio, and in the process usually has full buy-and-sell discretion. But discretion "does not extend to ability to withdraw funds," said Harlan Cadinha of the management firm of Jurika, Cadinha & Voyles Inc.

Normally, clients' assets are placed in the custody of a trust company or a stock exchange firm, which will issue periodic statements against which the management firm's statements can be checked.

Whatever type of financial firm you plan to deal with, check its reputation with people you trust, the investment executives said.

"Check with your attorney, your accountant, your banker," said planner Chamberlain.

People asking around about Ron Rewald probably learned little. For a person with a flashy, high-profile lifestyle, "he was an enigma" as a financier, observed a local publishing executive.

To attorney Thomas Foley, lack of information about an investment firm, its principals and its programs is reason in itself to shy away. Foley's firm had been asked by clients about Bishop Baldwin's program "and we dissuaded them only because we had no information."

Said money manager Cadinha: "If you don't understand what your investment manager is going to do for you, it doesn't